"North American Energy at a Crossroads"
Address by the Honourable Jim Prentice, P.C., Q.C.
Senior Executive Vice President and Vice Chairman, CIBC
Alberta Chamber of Resources
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Check against Delivery

Good afternoon. It's a pleasure to be back in Edmonton and to have the opportunity to speak before a group that has defined itself as a leading voice for the responsible development of our resources. It's a point of pride for us that Randy Geislinger, executive director with CIBC's corporate banking group, serves on your board of directors.

Today, I'd like to discuss in some detail the potential for Alberta's energy future, with a focus on the opportunities at hand, the challenges we face and the pitfalls we must avoid.

For years now, for decades in fact, we've been going about our business in a certain way – comfortable and content within a stable, effective North American marketplace. We are an energy exporter. We sell all of our oil, and all of our gas, to a single customer: the United States. It has been – and it remains – a mutually beneficial relationship.

But it is a relationship that is taking on new dimension and nuance as the U.S. increases domestic oil production, asserts itself as a gas exporter and emerges as a critic of the environmental performance of the oil sands.

At the same time, a critical shift is underway around the world – new market dynamics, new technological advances, new economies in ascendance. These forces are changing the way the game is played. They are compelling us to take action to ensure that we continue to prosper.

As a province and as a country, we are today facing a critical challenge in the energy space: the challenge of market access. It's a challenge that we must confront and overcome if we are to successfully transition from being a continental energy supplier to a legitimate and long-term global player.

Let's take stock of where we are today.

We have one of the world's largest proved reserves of oil – some 174 billion barrels in all, which represents more half of the world's investible oil reserves. We are experienced at developing, producing and selling energy in a large albeit limited context.

But despite our natural advantages, we find our expanding production locked into a continental marketplace plagued by infrastructure bottlenecks and price differentials. And we find ourselves quarrelling about how to move forward as an energy power.

As Albertans, we all know the stakes are high. We know the importance of the energy industry not only to this province but also to the country as a whole.

Our dependence on a single customer isn't just a curiosity or a nuisance. It is an enormous economic and political vulnerability.

When the Obama administration decided to defer its decision on the Keystone XL pipeline expansion, there was really nothing of substance that Canada could do about it. We could express our frustration. And we did. We could press the administration for action. And we did. But what we couldn't do is storm off and sell our product to another customer. We don't have another customer.

For a country whose economy is disproportionately based on the export of energy, that is more than an inconvenience. It is a serious and structural problem, especially for the people of this province.

And now we are waiting yet again as the Keystone review process enters yet another phase that means we are still at minimum a few months away from resolution.

If we are honest about where we stand with the Americans, we would acknowledge that there's been a growing disconnect on the energy file.

Many of us in Canada see the benefit of increased energy-based co-ordination between our two countries. But for the past five years the relationship has seen its share of delays, uncertainty and – from the Americans – disinterest.

In recent years, we have made some joint progress – such as our success in harmonizing motor vehicle consumption standards, an achievement that's already reducing greenhouse gas emissions.

But we've also watched as low carbon fuel standards have proliferated in the U.S. – in effect an effort to shut out our oil sands oil. We have also witnessed the introduction of renewable portfolio standards that discriminate against Canadian hydro.

We have wisely avoided damaging our industrial competitiveness through national or continental carbon policies, but in the ensuing void we have witnessed the proliferation of provincial, state and local measures that are having the same effect: namely, damaging Canada's competitiveness and the vitality of NAFTA.

And it should be lost on no one that there are many strong views south of the border – some of them informed, some less so – regarding the environmental impact of the oil sands

I've said this before but its truth becomes more obvious with time: in the world of tomorrow, energy leadership and environmental leadership are now two sides of the same coin. Canada will either be an environmental leader or have other jurisdictions attempt to dictate our environmental policies.

The United States will always be the best and biggest customer for Canadian hydrocarbons. They are our partners and they are our friends – but we can't be lulled into believing that their interests and our interests on energy will ever be identical. They are focused on diversity of supply and developing their own resource base. We need to be focused on diversity of market – finding new buyers in new places.

Even if Keystone is ultimately approved, we can't labour under the illusion that this will solve all our difficulties. Growth in long-term demand for oil is not going to be American. It's not going to be European.

It's going to be Asian.

Let's be clear and let's not sugar-coat it: the development of Pacific corridors for oil and liquefied natural gas stands as one of the most important – and certainly one of the most challenging – initiatives that our country has encountered in decades.

I applaud the Prime Minister's determination to diversify Canada's energy market. His Foreign Affairs Minister, John Baird, has said that looking to Asia is "no longer a choice, no longer an option" – and that relations with the Asian continent are now a "top foreign policy priority."

On this issue as much as any other, we need political leadership to deliver what is in the collective interest of current and future Canadians.

Simply put, we need to get our house in order. If we want to prosper, we can't be complacent as producers and we can't be divided as Canadians.

To succeed in this task, Alberta and Canada must have a strategic focus on three imperatives. We must:

- become more international in our ambitions, by securing trading relationships with new partners, especially in the Asia-Pacific;

- invest in and develop the infrastructure required to efficiently export oil and gas both on the continent and around the world;

- and ensure an attractive regime for foreign investment in the energy industry, including from State-Owned Enterprises.

Let's begin with trade.

As a country, we are the world's eighth largest exporter and seventh largest importer. We are a trading nation, and always have been. We know first hand, and from long experience, the importance of engaging in the world. Or at least we should.

But when it comes to energy, we are not being sufficiently attentive to our future interests.

Even with an essential commodity like oil, relationships matter. Trade agreements provide the foundation for those relationships. Trade missions – whether by government or industry or both – also matter because they help to deepen those relationships. In places like Beijing, Kuala Lumpur, Singapore, Bangkok and Tokyo, the efforts and visibility of government and industry matter. They make a difference.

And 'government-to-government' dialogue and commitments – even symbolic commitments – matter as well. This is especially so with the governments of emerging market economies that are more collectivist than our own.

Ministers Fast and Baird of the Canadian government understand this imperative and are moving towards it. But our competitors are not standing still.

Russia and China are perhaps the most obvious example, having concluded specific export commitments relating to both oil and natural gas. The United States is on the move as well. It has entered into the natural gas export business. Canada needs to be more global in its thinking and more invested in its relationships. Japan, China and India are the most obvious potential partners.

The world is re-balancing towards emerging markets. Canada must re-balance with it. The country’s true potential in oil and gas will be unlocked only if it is a full, active and aggressive participant in the most dynamic corners of the global economy.

A second imperative is that of infrastructure – pipelines, ports and terminals.

The context here is important. Today, we produce in excess of 3 million barrels of oil a day – some 55 per cent of it in the oil sands. Daily production is increasing every year by about 200,000 barrels. Depending on assumptions we are prepared to make about the pace of oil sands expansion, daily domestic production levels could reach six million barrels or more by 2030.

As Albertans well know, oil sands projects are quite different from most of the exploration and development we see in the energy world. They are major undertakings that require massive upfront capital investment – but produce dependably for long, long periods. This is part of the reason the business has over time been distilled to some of the world's largest energy companies. It takes years of effort and billions of dollars to get a barrel of oil from the ground. But when these projects come on-stream, they operate like an annuity for 30 to 50 years.

In recent years, there has been a rationalization of ownership in the oil sands. And while there are now more properties on the market than we have typically seen, we at CIBC believe that this will sort itself out. Prices have begun to adjust to more understandable levels. I believe it's safe to say that some companies got into the oil sands without a full understanding of the intensity of capital investment that would be required.

But construction, investment and production are proceeding apace. The strong players are still strong, and still there. Simple math leads us to the realization that the oil sands will be an increasingly essential part of the market for decades to come.

And therein lies the root of the longer-term challenge. Simply put, Canada lacks the pipeline infrastructure required to handle the overall projected growth in production beyond 2020. Pipelines are required in virtually every direction and, at present, the only alternative available is to transport more oil using rail cars.

That's only one aspect of the infrastructure challenge. Keystone is another. I would point to two more:

- One, there are no major LNG terminals under construction in Canada, and every month that remains true we fall further behind the Americans and other competitors.

- And two, serious opposition has been mounted against the Northern Gateway – the major proposed pipeline that would transport oil sands production to the deep-water ports of Canada's west coast.

To be fair, few saw this infrastructure challenge coming even five years ago. But it is here and it is real. And even as we've been awakened to the new reality, Canada has made minimal tangible progress toward addressing the infrastructure problem. As a country, and as an industry, we must do better.

The Gateway would carry more than half a million barrels of oil a day. It would provide Canada the opportunity to forge a beachhead in the markets of the Asia Pacific and allow oil sands companies to increase production without being subjected to pipeline capacity issues.

This is will a consequential year for the proposed project. Alberta, Enbridge and the industry as a whole must work together – with opponents, with Aboriginal groups and more – to secure the social license that would help the project to proceed, and help develop our ability to get our oil to global markets.

It need be said that no decision on any one project is going to make or break Canada's oil and gas industry. But there's no denying that the infrastructure challenge has cast something of a pall over the sector. Over the long term, west-coast access is essential to the ability of the industry to prosper. And whether it happens in the next few years, or over a longer period of time, I am optimistic that Canada will both confront and overcome its infrastructure challenges.

This brings me to Canada's third and final critical goal if we are going to broaden our horizons to become a global energy force: the encouragement of foreign investment.

Our need for capital is well-documented. It reflects the scale of our ambitions. CIBC's research indicates that based on announced oil sands and LNG projects – as well as ongoing exploration and drilling – Canada's energy sector has annual capital expenditure in excess of $50 billion annually.

Over the past three years, about $14 billion of that amount has been raised annually in domestic capital markets, leaving foreign investment to close a significant gap.

That’s a big gap and it means that if our energy sector is going to achieve full capacity, we will require three times as much capital each year as we can raise in Canada.

Sustaining that level of foreign investment must always be a focus and we can never allow it to become a serious challenge.

With the goal of building some muscle around our country’s open approach to trade, Ottawa tightened the rules related to investment by State-Owned Enterprises in the resource sector in late 2012. And I do agree that that bringing greater focus to foreign investment in Canada’s oil sands was the right move.

However, the Government’s move coincided with a number of other factors that contributed to a dramatic reduction in in-bound foreign investment in Canada’s energy sector in 2013.

By way of a specific example, investment by Chinese SOEs in the oilpatch totaled some $33 billion between 2005 and 2013. That has now essentially stopped.

I travel internationally a great deal on behalf of the bank: Let me share with you what I’ve been told over and over in the past year.

The government policy change – and the uncertainty about the new rules and their application – is just one element that has contributed to the recent drought in foreign capital flows to Canada’s oil and gas sector.

Beyond investor uncertainty over how the new rules will be applied to foreign investment, there is heightened concern about market access, specifically as it relates to the future of the Northern Gateway and Keystone pipelines – as well as the infrastructure deficit that has caused bottlenecks in existing pipeline capacity.

And there are also questions about the industry’s ability to contain the costs related to the massive capital projects to which it has committed.

There are other challenges stemming from the fact that in a world of declining oil prices, the return on investments in some Canadian oil sands and heavy oil projects has become increasingly marginal. I dispute that Canada's oil sands are the world's marginal cost barrels, but there is no doubt that some projects fit that characterization. Global companies have global asset portfolios and they make global choices on which investments to prioritize.

I would emphasize that when it comes to the international and Canadian majors, the companies that excel in the oil sands – for example, CNRL, Cenovus, Imperial Oil, Suncor and Husky – these companies continue to do very well.

But a measure of clarity is needed. In my view, we must continue to make clear to the world that Alberta and Canada continue to be open for business.

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We must reassure SOEs that, barring exceptional circumstances such as majority stakes in oil sands companies, their presence is welcome and indeed valued.

As a country, Canada should not be intimidated by the presence of large SOEs. They have emerged as a dominant form of international capital, especially in the energy space. Canada needs that capital – on its own terms, to be sure - but it needs it nonetheless. And if these companies don't wind up 'platforming' their operations from Edmonton, Calgary or Toronto – then they will do so in London, Houston or another energy or financial capital.

It is important for Canada to demonstrate that its concern is not with the ownership of the foreign capital being invested, but how it behaves in the Canadian marketplace once it is invested. Indeed, the guiding principle behind our policy on SOEs must be to ensure that it advances, rather than curtails, the pursuit of trade and open commerce with emerging countries.

By way of summing up, I would note that our energy industry is truly at a crossroads. Over the past few years, technology has stood conventional wisdom on its head, resulting in a remarkable rise in U.S. oil and gas production. The supply-demand balance for North American energy has been changed in a fundamental manner. At the same time, new markets of growing demand are emerging.

If the challenges that confront us can be overcome, if we can secure the market access we require, build out the requisite infrastructure and continue to attract global-scale capital – then both Alberta and Canada stand to benefit enormously and this industry will remain a driving engine of growth.

In the national debate surrounding the decisions that will shape Canada energy future, there is a clear role for organizations like the Edmonton Chamber of Resources.

Working together with other groups, you can help to build the case for Canada's transformation into a global energy player, one that is propelled forward by wide-reaching trade agreements and relationships as well as a portfolio of energy partners, rather than just one.

Sharing that vision of prosperity will also demonstrate the clarity and conviction required to attract the foreign capital necessary to finance it.

In Alberta, home to oil sands, and across the country, Canadians have learned from experience that success in oil and gas is never assured, and prosperity is never a birthright. It requires foresight, smart choices and hard work. And it requires action – and collaboration - during times of both challenge and opportunity.

For Canada, that time is now.

Thank you.